

**City of Frankfort, Michigan**

**BASIC FINANCIAL STATEMENTS**

**June 30, 2008**

**CITY OF FRANKFORT, MICHIGAN**

ORGANIZATION

**MEMBERS OF THE CITY COUNCIL**

MAYOR

NORMA ELIAS

MAYOR PRO-TEM

JOANN HOLWERDA

MEMBER

SUSANNE GLYNN

MEMBER

PAT HAUGEN

MEMBER

FRED STRANSKY

**APPOINTED OFFICERS**

CITY SUPERINTENDENT

JOSHUA MILLS

CITY CLERK/TREASURER

KIMBERLY KIDDER

CHIEF OF POLICE

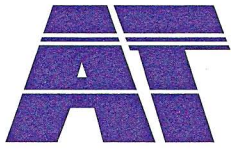
KEITH REDDER

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
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**DIVISION FOR CPA FIRMS**

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**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and Members  
of the City Council  
City of Frankfort, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frankfort, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Frankfort's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frankfort, Michigan as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2008 on our consideration of the City of Frankfort, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Frankfort, Michigan's basic financial statements. The combining nonmajor fund financial statements identified in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to basic financial statements taken as a whole.

The additional information regarding the Municipal Securities Disclosure Requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

December 19, 2008

## **Management's Discussion and Analysis**

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**Using this Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

**The City as a Whole**

The City's combined net assets decreased 6.4% from a year ago decreasing from \$4,526,113 to \$4,235,333. The governmental activities experienced a \$170,532 decrease in net assets primarily due to outlays to construct a new fire hall. The business-type activities experienced a \$120,248 decrease in net assets, primarily as a result of current year depreciation expenses.

In a condensed format, the table below shows comparison of the net assets of the City of Frankfort.

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current Assets	\$ 268,820	\$ 336,516	\$ 559,907	\$ 542,400	\$ 828,727	\$ 878,916
Noncurrent Assets	<u>3,717,711</u>	<u>3,926,635</u>	<u>4,836,510</u>	<u>3,643,571</u>	<u>8,554,221</u>	<u>7,570,206</u>
Total Assets	<u>\$ 3,986,531</u>	<u>\$ 4,263,151</u>	<u>\$ 5,396,417</u>	<u>\$ 4,185,971</u>	<u>\$ 9,382,948</u>	<u>\$ 8,449,122</u>
Current Liabilities	\$ 176,673	\$ 159,667	\$ 162,630	\$ 102,936	\$ 339,303	\$ 262,603
Noncurrent Liabilities	<u>2,767,312</u>	<u>2,890,406</u>	<u>2,041,000</u>	<u>770,000</u>	<u>4,808,312</u>	<u>3,660,406</u>
Total Liabilities	<u>2,943,985</u>	<u>3,050,073</u>	<u>2,203,630</u>	<u>872,936</u>	<u>5,147,615</u>	<u>3,923,009</u>
Net Assets						
Invested in Capital Assets -						
Net of Related Debt	1,554,030	1,701,227	2,698,510	2,808,571	4,252,540	4,509,798
Restricted	8,020	19,626	-	319,652	8,020	339,278
Unrestricted	<u>(519,504)</u>	<u>(507,775)</u>	<u>494,277</u>	<u>184,812</u>	<u>(25,227)</u>	<u>(322,963)</u>
Total Net Assets	<u>\$ 1,042,546</u>	<u>\$ 1,213,078</u>	<u>\$ 3,192,787</u>	<u>\$ 3,313,035</u>	<u>\$ 4,235,333</u>	<u>\$ 4,526,113</u>

The current level of unrestricted net assets for our governmental activities stands at (519,504) or about 0% of expenditures. This is within the targeted range set by the City Council during its last budget process.



The following table shows the activities of the City.

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Program Revenues						
Charges for Services	\$ 312,529	\$ 353,743	\$ 1,052,379	\$ 1,075,407	\$ 1,364,908	\$ 1,429,150
Operating Grants	162,593	213,369	-	2,370	162,593	215,739
Capital Grants and Contributions	1,727	139,758	-	-	1,727	139,758
General Revenues						
Property Taxes	1,121,169	1,087,910	-	-	1,121,169	1,087,910
State-Shared Revenues	142,110	142,049	-	-	142,110	142,049
Federal, State, Local – General	-	14,299	-	-	-	14,299
Unrestricted Investment Earnings	<u>6,722</u>	<u>5,776</u>	<u>11,513</u>	<u>8,581</u>	<u>18,235</u>	<u>14,357</u>
Total Revenues	<u>1,746,850</u>	<u>1,956,904</u>	<u>1,063,892</u>	<u>1,086,358</u>	<u>2,810,742</u>	<u>3,043,262</u>
Program Expenses						
Legislative	1,121	1,975	-	-	1,121	1,975
General Government	616,288	628,285	-	-	616,288	628,285
Public Safety	494,413	493,865	-	-	494,413	493,865
Public Works	437,504	481,820	-	-	437,504	481,820
Recreation and Culture	293,169	186,424	-	-	293,169	186,424
Interest Expense – Unallocated	84,887	135,051	-	-	84,887	135,051
Other Expenses	-	46,828	-	-	-	46,828
Water	-	-	257,949	218,917	257,949	218,917
Sewer	-	-	500,248	421,890	500,248	421,890
Marina	-	-	376,424	378,448	376,424	378,448
Garbage and Rubbish	<u>-</u>	<u>-</u>	<u>39,519</u>	<u>39,407</u>	<u>39,519</u>	<u>39,407</u>
Total Expenses	<u>1,927,382</u>	<u>1,974,248</u>	<u>1,174,140</u>	<u>1,058,662</u>	<u>3,101,522</u>	<u>3,032,910</u>
Change in Net Assets before Transfers	(180,532)	(17,344)	(110,248)	27,696	(290,780)	10,352
Transfers	<u>10,000</u>	<u>141,973</u>	<u>(10,000)</u>	<u>(141,973)</u>	<u>-</u>	<u>-</u>
Changes in Net Assets	<u>(170,532)</u>	<u>124,629</u>	<u>(120,248)</u>	<u>(114,277)</u>	<u>(290,780)</u>	<u>10,352</u>
Net Assets – Beginning	1,213,078	1,105,431	3,313,035	3,353,002	4,526,113	4,458,433
Residual Equity Transfer	-	(16,982)	-	16,982	-	-
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,328</u>	<u>-</u>	<u>57,328</u>
Net Assets – Beginning - Restated	<u>1,213,078</u>	<u>1,088,449</u>	<u>3,313,035</u>	<u>3,427,312</u>	<u>4,526,113</u>	<u>4,515,761</u>
Net Assets – Ending	<u>\$ 1,042,546</u>	<u>\$ 1,213,078</u>	<u>\$ 3,192,787</u>	<u>\$ 3,313,035</u>	<u>\$ 4,235,333</u>	<u>\$ 4,526,113</u>

**Governmental Activities**

Revenue from property taxes increased 3.1% from the previous year increasing from \$1,087,910 to \$1,121,169. This increase was primarily due to uncapping of property from sales and new construction.

Expenses decreased by \$46,866. This decrease was primarily due to staff reduction and budget control.

**Business-Type Activities**

The City's total business-type revenues decreased by approximately \$22,466, primarily due to civic conservation, decline in the economy and increase in gas prices.

Expenses increased by about \$115,478 during the year. The most significant increases were interest expense for the water and sewer fund.

**The City's Funds**

Our analysis of the City's major funds begins on page 9, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2008 include the General Fund, Major Streets, Local Streets, Water, Sewer, and Marina Funds.

The General Fund pays for most of the City's governmental services. The most significant are General Government and Public Safety, which incurred expense of approximately \$815,132 in 2008. These two services are mostly supported by property taxes, revenue sharing, and grants.

Major and Local Streets use Act 51 monies to maintain and construct the City's streets. In 2008, \$138,231 was received from the State of Michigan and \$163,613 was spent for the construction and maintenance of streets. Transfers of \$18,588 were received from the general fund to supplement state funds.

The Water and Sewer funds provide water and waste water service to nearly 1,000 customers in 2008. The funds generated \$633,211 in user fees and spent \$758,197 in operations.

The Marina fund provides docking and fuel sales to an average of 1,000 vessels a year. In 2008, the Marina generated \$384,668 in user fees and spent \$376,424 in operations. The increase in fuel costs increased revenues and expenses in 2008. Overall the Marina fund had a great year of operations.

The Marina filled 34 seasonal slips and 1,000 transient slips in 2008. Many repeat customers and many new customers from Grand Haven, Chicago, and Wisconsin. Over one half of the seasonal slips have already been reserved for next season.

**General Fund Budgetary Highlights**

Over the course of the year, the City board amended the budget to take into account events during the year. There were no significant changes to revenue during the year. The most significant variance was relating to transfers out, which exceeded budget by \$18,558. This variance occurred because of adding a recreation center fund when activity was previously reported in the general fund. Also, transfers were made from the general fund to the fire and first responders funds. Overall, the General Fund's fund balance decreased from \$206,647 a year ago to 156,803 at June 30, 2008.

**Capital Asset and Debt Administration**

At the end of 2008, the City had \$8,554,221 invested in a broad range of capital assets, including Water and Sewer System, Marina, Building and Improvements, Machinery and Equipment, and Land.

The City reduced its bond debt load by \$191,727 in principal payments in fiscal year 2008, ending with a bond debt balance of \$4,886,681.

**Economic Factors and Next Year's Budgets and Rates**

The City is in a budget battle from year to year. Normally, the cap on the growth rate under the Headlee Amendment, the voters reluctance to adjust or augment taxes for general operation, and the corresponding double digit growth rates in health and liability insurance have put significant limitations on budget flexibility. There are looming indications from the State that further cuts will occur in State Revenue Sharing and possibly other State funded areas. This could put increased pressure on already tight budget projections. We are pleased to end the current year with healthy fund balances in all but one major fund, but are realistic in projecting revenue from fines and fees for current and future budgets in order that revenue expectations and corresponding expenses are not inflated.

**Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the City.

## **Basic Financial Statements**

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	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Totals
<b>ASSETS:</b>			
Cash & Investments - Unrestricted	\$ 31,947	\$ 189,945	\$ 221,892
- Restricted	66,012	312,192	378,204
Accounts Receivable	-	27,949	27,949
Due from Governmental Units	156,066	-	156,066
Inventories	-	24,504	24,504
Other Assets	14,795	5,317	20,112
Capital Assets (Net of Accumulated Depreciation)	3,717,711	4,836,510	8,554,221
<b>TOTAL ASSETS</b>	<b>\$ 3,986,531</b>	<b>\$ 5,396,417</b>	<b>\$ 9,382,948</b>
<b>LIABILITIES:</b>			
Accounts Payable	\$ 18,212	\$ 42,333	\$ 60,545
Accrued Liabilities	17,821	18,111	35,932
Accrued Interest Payable	16,136	5,186	21,322
Due to Governmental Units	3,209	-	3,209
Compensated Absences	139,926	-	139,926
Installment Loans - Current	34,295	-	34,295
Installment Loans	203,386	-	203,386
Bonds Payable - Current	87,000	97,000	184,000
Bonds Payable	2,424,000	2,041,000	4,465,000
<b>TOTAL LIABILITIES</b>	<b>2,943,985</b>	<b>2,203,630</b>	<b>5,147,615</b>
<b>NET ASSETS:</b>			
Invested in Capital Assets (net of related debt)	1,554,030	2,698,510	4,252,540
Restricted for Trust	8,020	-	8,020
Unrestricted	(519,504)	494,277	(25,227)
<b>TOTAL NET ASSETS</b>	<b>\$ 1,042,546</b>	<b>\$ 3,192,787</b>	<b>\$ 4,235,333</b>

# City of Frankfort, Michigan

## Statement of Activities For the Year Ended June 30, 2008

					Net (Expense) Revenue and		
					Changes in Net Assets		
					Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
<b>Governmental Activities:</b>							
Legislative	\$ 1,121	\$ -	\$ -	\$ -	\$ (1,121)	\$ -	\$ (1,121)
General Government	616,288	124,076	-	-	(492,212)	-	(492,212)
Public Safety	494,413	133,083	18,550	-	(342,780)	-	(342,780)
Public Works	430,001	498	144,043	-	(285,460)	-	(285,460)
Recreation & Culture	293,169	54,872	-	1,727	(236,570)	-	(236,570)
Interest expense - Unallocated	92,390	-	-	-	(92,390)	-	(92,390)
Total Governmental Activities	1,927,382	312,529	162,593	1,727	(1,450,533)	-	(1,450,533)
<b>Business-type activities:</b>							
Water	257,949	244,424	-	-	-	(13,525)	(13,525)
Sewer	500,248	388,787	-	-	-	(111,461)	(111,461)
Marina	376,424	384,668	-	-	-	8,244	8,244
Garbage & Rubbish	39,519	34,500	-	-	-	(5,019)	(5,019)
Total Business-type Activities	1,174,140	1,052,379	-	-	-	(121,761)	(121,761)
Total Primary Government	\$ 3,101,522	\$ 1,364,908	\$ 162,593	\$ 1,727	(1,450,533)	(121,761)	(1,572,294)
<b>General Revenues:</b>							
Taxes					1,121,169	-	1,121,169
State Revenue Sharing					142,110	-	142,110
Investment Earnings (Loss)					6,722	11,513	18,235
Transfers					10,000	(10,000)	-
<b>Total General Revenues and Transfers</b>					1,280,001	1,513	1,281,514
Change in Net Assets					(170,532)	(120,248)	(290,780)
Net Assets - Beginning					1,213,078	3,313,035	4,526,113
<b>Net Assets - Ending</b>					\$ 1,042,546	\$ 3,192,787	\$ 4,235,333

See accompanying notes to financial statements.

# City of Frankfort, Michigan

## Balance Sheet Governmental Funds June 30, 2008

	General	Major Streets	Local Streets	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>					
Cash & Investments - Unrestricted	\$ -	\$ 22,548	\$ 181	\$ 9,218	\$ 31,947
- Restricted	3,393	-	-	62,619	66,012
Due from Other Funds	54,299	-	-	-	54,299
Other Assets	8,551	1,285	2,027	2,932	14,795
Due from Governmental Units	124,217	18,034	7,074	6,572	155,897
<b>TOTAL ASSETS</b>	<b>\$ 190,460</b>	<b>\$ 41,867</b>	<b>\$ 9,282</b>	<b>\$ 81,341</b>	<b>\$ 322,950</b>
<b>LIABILITIES:</b>					
Due to Other Funds	\$ -	\$ 39,299	\$ 7,831	\$ 7,000	\$ 54,130
Accounts Payable	15,424	572	503	1,713	18,212
Accrued Liabilities	17,403	137	138	143	17,821
Due to Governmental Units	830	1,859	520	-	3,209
<b>TOTAL LIABILITIES</b>	<b>33,657</b>	<b>41,867</b>	<b>8,992</b>	<b>8,856</b>	<b>93,372</b>
<b>FUND BALANCES:</b>					
Reserved for Trust	-	-	-	8,020	8,020
Unreserved					
Designated for Special Projects	156,803	-	290	-	157,093
Designated for Debt Service	-	-	-	56,331	56,331
Undesignated	-	-	-	8,134	8,134
<b>TOTAL FUND BALANCES</b>	<b>156,803</b>	<b>-</b>	<b>290</b>	<b>72,485</b>	<b>229,578</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 190,460</b>	<b>\$ 41,867</b>	<b>\$ 9,282</b>	<b>\$ 81,341</b>	
<b>Reconciliation to amounts reported for governmental activities in the statement of net assets:</b>					
Capital assets used by governmental activities					3,717,711
Long-term notes & leases payable for governmental activities					(2,748,681)
Compensated absences liability					(139,926)
Accrued interest expense					(16,136)
<b>Net assets of governmental activities</b>					<b>\$ 1,042,546</b>

# City of Frankfort, Michigan

## Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended June 30, 2008

	General	Major Streets	Local Streets	Other Governmental Funds	Totals Governmental Funds
<b>REVENUES:</b>					
Taxes	\$ 968,861	\$ -	\$ -	\$ 152,308	\$ 1,121,169
Licenses & Permits	3,245	-	-	-	3,245
State Sources	147,922	98,606	39,625	600	286,753
Local Sources	431	-	-	19,110	19,541
Charges for Services	39,482	-	-	127,914	167,396
Interest & Rentals	46,246	476	22	1,251	47,995
Other Revenue	81,758	-	-	18,993	100,751
<b>TOTAL REVENUES</b>	<b>1,287,945</b>	<b>99,082</b>	<b>39,647</b>	<b>320,176</b>	<b>1,746,850</b>
<b>EXPENDITURES:</b>					
Legislative	1,121	-	-	-	1,121
General Government	569,723	-	-	-	569,723
Public Safety	245,409	-	-	173,522	418,931
Public Works	229,059	92,569	71,044	-	392,672
Recreation & Cultural	212,156	-	-	33,265	245,421
Debt Service	7,503	-	-	189,524	197,027
<b>TOTAL EXPENDITURES</b>	<b>1,264,971</b>	<b>92,569</b>	<b>71,044</b>	<b>396,311</b>	<b>1,824,895</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>22,974</b>	<b>6,513</b>	<b>(31,397)</b>	<b>(76,135)</b>	<b>(78,045)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating Transfers In	10,000	18,558	28,700	132,699	189,957
Operating Transfers Out	(82,818)	(28,700)	-	(68,439)	(179,957)
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>(49,844)</b>	<b>(3,629)</b>	<b>(2,697)</b>	<b>(11,875)</b>	<b>(68,045)</b>
<b>FUND BALANCES, JULY 1</b>	<b>206,647</b>	<b>3,629</b>	<b>2,987</b>	<b>84,360</b>	<b>297,623</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 156,803</b>	<b>\$ -</b>	<b>\$ 290</b>	<b>\$ 72,485</b>	<b>\$ 229,578</b>



**Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended June 30, 2008**

Net changes in fund balances – total governmental funds \$ (68,045)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense and loss on disposal (\$208,924) exceeded capital outlay \$0. (208,924)

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal repayments:		
Bond principal	\$ 86,000	
Installment principal	<u>15,727</u>	
		101,727

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	\$ 1,799	
Accrued interest on bonds	<u>2,911</u>	
		<u>4,710</u>

Changes in net assets of governmental activities \$ (170,532)

**Statement of Net Assets  
Proprietary Funds  
June 30, 2008**

	Enterprise Funds			Nonmajor Fund	
	Water	Sewer	Marina	Garbage & Rubbish	Totals
<b>ASSETS:</b>					
Cash & Investments - Unrestricted	\$ 5,598	\$ 72,697	\$ 99,973	\$ 11,677	\$ 189,945
- Restricted	182,194	129,998	-	-	312,192
Accounts Receivable	8,432	17,992	1,525	-	27,949
Inventories	-	-	24,504	-	24,504
Other Assets	390	2,240	2,655	32	5,317
Property, Plant & Equipment	3,125,958	2,598,734	1,745,651	-	7,470,343
Accumulated Depreciation	(813,313)	(716,607)	(1,103,913)	-	(2,633,833)
<b>TOTAL ASSETS</b>	<b>\$ 2,509,259</b>	<b>\$ 2,105,054</b>	<b>\$ 770,395</b>	<b>\$ 11,709</b>	<b>\$ 5,396,417</b>
<b>LIABILITIES:</b>					
Accounts Payable	\$ 2,664	\$ 25,588	\$ 11,098	\$ 2,983	\$ 42,333
Accrued Liabilities	277	3,049	14,761	24	18,111
Accrued Interest Payable	3,907	836	443	-	5,186
Bonds Payable - Current	48,000	34,000	15,000	-	97,000
Bonds Payable	893,000	1,053,000	95,000	-	2,041,000
<b>TOTAL LIABILITIES</b>	<b>947,848</b>	<b>1,116,473</b>	<b>136,302</b>	<b>3,007</b>	<b>2,203,630</b>
<b>NET ASSETS:</b>					
Invested in Capital Assets (net of related debt)	1,371,645	795,127	531,738	-	2,698,510
Unrestricted	189,766	193,454	102,355	8,702	494,277
<b>TOTAL NET ASSETS</b>	<b>\$ 1,561,411</b>	<b>\$ 988,581</b>	<b>\$ 634,093</b>	<b>\$ 8,702</b>	<b>\$ 3,192,787</b>

**Statement of Revenues, Expenses, and  
Changes in Net Assets - Proprietary Funds  
For the Year Ended June 30, 2008**

	Enterprise Funds			Nonmajor Fund	
	Water	Sewer	Marina	Garbage & Rubbish	Totals
<b>OPERATING REVENUES:</b>					
Charges for Services	\$ 244,144	\$ 382,711	\$ 384,668	\$ 34,500	\$ 1,046,023
Other Revenue	280	6,076	-	-	6,356
Total Operating Revenues	244,424	388,787	384,668	34,500	1,052,379
<b>OPERATING EXPENSES:</b>					
Employee Wages & Benefits	78,855	68,388	76,578	10,969	234,790
Plant Operation	17,179	221,570	-	-	238,749
Supplies	11,956	9,974	181,443	28,550	231,923
Repairs & Maintenance	28,090	20,683	12,759	-	61,532
Contracted Services	29,841	8,173	13,602	-	51,616
Insurance	1,516	4,940	2,192	-	8,648
Depreciation	65,336	38,755	40,611	-	144,702
Marina Operations	-	-	43,464	-	43,464
Other Expenses	2,455	4,757	781	-	7,993
Total Operating Expenses	235,228	377,240	371,430	39,519	1,023,417
<b>OPERATING INCOME (LOSS)</b>	9,196	11,547	13,238	(5,019)	28,962
<b>NON-OPERATING REVENUES (EXPENSES):</b>					
Interest Expense	(22,721)	(123,008)	(4,994)	-	(150,723)
Interest & Rentals	5,630	3,579	2,059	245	11,513
Total Non-operating Revenues (Expenses)	(17,091)	(119,429)	(2,935)	245	(139,210)
Income before transfers	(7,895)	(107,882)	10,303	(4,774)	(110,248)
Operating Transfers In	190,441	245,402	-	-	435,843
Operating Transfers Out	(245,402)	(190,441)	(10,000)	-	(445,843)
<b>CHANGE IN NET ASSETS</b>	(62,856)	(52,921)	303	(4,774)	(120,248)
NET ASSETS, JULY 1	1,624,267	1,041,502	633,790	13,476	3,313,035
<b>NET ASSETS, JUNE 30</b>	<u>\$ 1,561,411</u>	<u>\$ 988,581</u>	<u>\$ 634,093</u>	<u>\$ 8,702</u>	<u>\$ 3,192,787</u>

## Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2008

	Enterprise Funds			Nonmajor Fund	
	Water	Sewer	Marina	Garbage & Rubbish	Totals
<b>Cash Flows From Operating Activities:</b>					
Cash Received from Customers or Users	\$ 265,191	\$ 408,049	\$ 369,523	\$ 34,631	\$ 1,077,394
Cash Payments to Employees	(90,146)	(262,039)	(246,961)	(25,567)	(624,713)
Cash Payments to Vendors	(79,244)	(67,029)	(68,974)	(11,061)	(226,308)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>95,801</b>	<b>78,981</b>	<b>53,588</b>	<b>(1,997)</b>	<b>226,373</b>
<b>Cash Flows from Non-Capital and Related Financing Activities:</b>					
Transfers In	190,441	245,402	-	-	435,843
Transfers (Out)	(245,402)	(190,441)	(10,000)	-	(445,843)
<b>Net Cash Provided (Used) by Non-Capital and Related Financing Activities</b>	<b>(54,961)</b>	<b>54,961</b>	<b>(10,000)</b>	<b>-</b>	<b>(10,000)</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>					
Debt Principal Payments	(47,000)	(28,000)	(15,000)	-	(90,000)
Debt Interest Payments	(22,721)	(123,008)	(4,994)	-	(150,723)
Bond Proceeds	363,000	1,030,000	-	-	1,393,000
Purchase of Property and Equipment	(338,532)	(999,109)	-	-	(1,337,641)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(45,253)</b>	<b>(120,117)</b>	<b>(19,994)</b>	<b>-</b>	<b>(185,364)</b>
<b>Cash Flows From Investing Activities:</b>					
Interest Income	5,630	3,579	2,059	245	11,513
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>5,630</b>	<b>3,579</b>	<b>2,059</b>	<b>245</b>	<b>11,513</b>
Net Increase (Decrease) in Cash	1,217	17,404	25,653	(1,752)	42,522
Cash and Equivalents at Beginning of Year	186,575	185,291	74,320	13,429	459,615
<b>Cash and Equivalents at End of Year</b>	<b>\$ 187,792</b>	<b>\$ 202,695</b>	<b>\$ 99,973</b>	<b>\$ 11,677</b>	<b>\$ 502,137</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating Income	\$ 9,196	\$ 11,547	\$ 13,238	\$ (5,019)	\$ 28,962
Add Non-Cash Expenses:					
Depreciation	65,336	38,755	40,611	-	144,702
Changes in Assets and Liabilities:					
Decrease (Increase) in Assets:					
Receivables	21,157	21,492	2,677	-	45,326
Inventory	-	-	(15,167)	140	(15,027)
Other Assets	(390)	(2,230)	(2,655)	(9)	(5,284)
Increase (Decrease) in Liabilities:					
Accounts Payable	891	8,058	7,280	2,983	19,212
Accrued Liabilities	(389)	1,359	7,604	(92)	8,482
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 95,801</b>	<b>\$ 78,981</b>	<b>\$ 53,588</b>	<b>\$ (1,997)</b>	<b>\$ 226,373</b>

**Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2008**

	Agency Funds		
	County	District	
	School Tax	Library	Totals
<b>ASSETS:</b>			
Cash & Equivalents:			
Unrestricted	\$ 982	\$ 336	\$ 1,318
 TOTAL ASSETS	 \$ 982	 \$ 336	 \$ 1,318
<b>LIABILITIES:</b>			
Due to Other Funds	\$ -	\$ 169	\$ 169
Due to Other Governmental Units	982	167	1,149
 TOTAL LIABILITIES	 \$ 982	 \$ 336	 \$ 1,318

## **Notes to Financial Statements**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The City of Frankfort was incorporated as a Home Rule City on March 11, 1935 under the authority granted by the Constitution and laws of the State of Michigan under the 1909 Public Act 279, as amended. The City operates under a charter adopted May 20, 1935 and is governed by an elected Mayor and Council. The City provides services to its residents in many areas including law enforcement, fire protection, community enrichment and development, refuse collection and human services.

**Reporting Entity**

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB No. 39; no other governmental organizations are considered to be part of the reporting entity for financial statement purposes. The criteria established by GASB Statement No. 14, as amended by GASB No. 39; for various governmental organizations to be included in the reporting entity's financial statement include legal separation, financial accountability and fiscal dependency.

**Jointly Governed Organization**

The City has formed a utilities authority with the Village of Elberta to own and operate a wastewater treatment plant that serves both communities. The Betsie Lake Utilities Authority (BLUA) is governed by a 5-member commission with representatives from each constituent municipality. The Authority is legally separate and not fiscally dependent on the City of Frankfort. It is therefore not a component of the City but rather a related organization. The Utility Authority, not being a part of the reporting entity, is audited under a separate contract; therefore it is not included in these financial statements. Complete financial statements can be obtained from the Betsie Lake Utility Authority, Frankfort, Michigan.

The City-County Airport Authority, an entity legally separate from the City, is governed by a seven-member board. Two members are appointed from the County of Benzie; two members are appointed from the City of Frankfort; two members are appointed from Crystal Lake Township; and the seventh member is appointed by the six members of the County, City, and Township.

For financial reporting purposes, the Authority is reported as a separate unit because the Authority can legally issue debt (although it has a letter of understanding with the City of Frankfort that no debt will be issued); levy tax revenue if desired; and adopt and amend its own budget. In the event of the Authority being dissolved, it will be reverted to the City of Frankfort. The Authority operates on a June 30 year end and is audited under a separate contract. Complete financial statements can be obtained from the County of Benzie, P.O. Box 377, 448 Court Place, Beulah, MI 49617.

**Basis of Presentation**

*Government-wide Statements:* The statement of net assets and the statement of activities display information about the primary government (the City). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the City's funds, including its fiduciary-funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services and sales, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

*General Fund.* This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Major Streets.* The Major Street Fund is used to account for the repair, maintenance, and construction of the City's major streets.

*Local Streets.* The Local Street Fund is used to account for the repair, maintenance, and construction of the City's local streets.

The City reports the following major enterprise funds:

*Water.* This fund accounts for the operation, maintenance, and development of water utilities.

*Sewer.* This fund accounts for the operation, maintenance, and development of sewer utilities.

*Marina.* This fund accounts for the operation, maintenance and development of the Marina.

The City reports the following fund types:

Governmental Funds

*General Fund.* Described above.



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

*Special Revenue Funds.* Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

*Debt Service Funds.* Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

*Permanent Funds.* The Tri Centennial Trust is the City's permanent fund. The principle portion of this fund must stay intact, but the interest earnings are used to provide for the trust's purpose.

*Enterprise Funds.* Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

*Agency Funds.* These funds account for monies held on behalf of other government units, employees, and retirement boards that use the City as a custodian.

**Measurement Focus, Basis of Accounting**

*Government-wide, Proprietary, and Fiduciary Fund Financial Statements.* The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, entitlements, and donations. On an accrual basis, revenue from taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All governmental and business-type activities and enterprise funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

**Cash and Equivalents**

The City considers cash and cash equivalents to be cash on hand and demand deposits and investments with a maturity of 90 days or less. Pooled investment income from all funds is allocated to each fund based on average cash balance. Deposits are recorded at cost.

**Interfund Receivables and Payables**

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

**Inventories**

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

**Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003 consist of the road network assets bridges, sidewalks, and storm sewers that were acquired or that received substantial improvements subsequent to July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. All assets with a cost of \$5,000 or more and useful life of one (1) year or more are capitalized.

# NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure - Sidewalks	10 – 30 years
- Roads	10 – 30 years
- Bridges	50
- Storm sewers	50
- Water & Sewer Systems	40
Buildings	30 – 50
Building improvements	15 – 20
Vehicles	2 – 15
Machinery	3 – 15
Office equipment	3 – 15
Computer equipment	3 – 15

## Budgetary Data

The City Clerk/Treasurer prepares and submits a proposed operating budget for the General Fund, Special Revenue Funds and Debt Service Funds to the City Council for its review and consideration. The Council conducts a public hearing and subsequently adopts the operating budget. The Council approves all budget amendments. The budget is adopted at the activity level and is prepared on the modified accrual basis of accounting which is the same basis as the financial statements of the applicable funds. The budgets lapse at year-end.

## Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**NOTE 2 - CASH AND INVESTMENTS:**

	<u>Primary Government</u>	<u>Fiduciary Funds</u>
Cash and Investments:		
- Unrestricted	\$ 221,892	\$ 1,318
- Restricted	<u>378,204</u>	<u>-</u>
Total	<u>\$ 600,096</u>	<u>\$ 1,318</u>
Imprest	\$ 653	\$ -
CD's savings and checking	<u>599,443</u>	<u>1,318</u>
Total	<u>\$ 600,096</u>	<u>\$ 1,318</u>

Deposits:

These deposits are in various financial institutions located in Benzie County in varying amounts. All accounts are in the name of the City and specific funds. They are recorded in City records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

Cash and Investments – Restricted:

The following funds have restricted cash for various purposes:

**Primary Government:**

<u>Fund Type/Fund</u>	<u>Purpose</u>	<u>Amount</u>
<b>General Fund:</b>		
	Compensated Absences	\$ 3,393
<b>Debt Service:</b>		
	Debt Service	56,331
<b>Water:</b>		
	Equipment Reserve	2,330
	Emergency	4,153
	Water Meter	199
	Improvement-Water	140,408
	Water USDA Bond	3,680
	Water USDA Replacement	5,000
	Wellhead Protection	26,424

**NOTE 2 - CASH AND INVESTMENTS: (Continued)**

<u>Fund Type/Fund</u>	<u>Purpose</u>	<u>Amount</u>
<b>Sewer:</b>		
	Equipment Reserve	\$ 330
	Sewer USDA Bond	2,300
	Sewer USDA Replacement	7,500
	Improvement Sewer	99,409
	Sewer Bond Revenue	10,458
	Emergency	10,001
<b>Tri-Centennial Trust:</b>		
	Trust Purposes	6,288
		<u>\$ 378,204</u>

**Investment and Deposit Risk**

*Interest rate risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City has no investments for which ratings are required.

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$626,084 of the City's bank balance of \$726,084 was exposed to credit risk because it was uninsured and uncollateralized.

**Statutory Authority**

Michigan law (Public Act 20 of 1943, as amended) authorizes the City of Frankfort to deposit and invest in one or more of the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.

**NOTE 2 - CASH AND INVESTMENTS: (Continued)**

- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in a.
- (e) Bankers' acceptances of United States banks.
- (f) Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- (g) Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- (h) Obligation described in a. through g. if purchased through an interlocal agreement under the urban corporation act of 1967, 1967 (EX Sess) PA 7, MCL 124.501 to 124.512.
- (i) Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- (j) The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

**NOTE 3 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:**

The City of Frankfort reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, proprietary funds, and fiduciary funds.

Interfund balances at June 30, 2008 consisted of the following:

	DUE FROM			
	Major Streets	Local Streets	All Others	Total
<b>DUE TO</b>				
General Fund	\$ 39,299	\$ 7,831	\$ 7,169	\$ 54,299

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**NOTE 3 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS: (Continued)**

Interfund transfers for the year ended June 30, 2008 consisted of the following:

**Interfund Transfers**

		TRANSFERS (OUT)						
TRANSFERS IN		General Fund	Major Street Fund	Nonmajor Governmental Funds	Water Fund	Sewer Fund	Marina Fund	Total
	General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,000	\$ 10,000
	Major Street	18,558	-	-	-	-	-	18,558
	Local Streets	-	28,700	-	-	-	-	28,700
	Nonmajor							
	Governmental	64,260	-	68,439	-	-	-	132,699
	Water Fund	-	-	-	245,402	-	-	245,402
	Sewer Fund	-	-	-	-	190,441	-	190,441
	Total	\$ 82,818	\$ 28,700	\$ 68,439	\$ 245,402	\$ 190,441	\$ 10,000	\$ 625,800

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 4 - CAPITAL ASSETS:**

Capital asset activity for the year ended June 30, 2008, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
<i>Capital assets not depreciated:</i>				
Land	\$ 364,337	\$ -	\$ -	\$ 364,337
Total assets not depreciated	<u>364,337</u>	<u>-</u>	<u>-</u>	<u>364,337</u>
<i>Capital assets being depreciated:</i>				
Land improvements	1,180,961	-	-	1,180,961
Buildings and improvements	2,896,119	-	-	2,896,119
Machinery and equipment	<u>1,476,077</u>	<u>-</u>	<u>(19,889)</u>	<u>1,456,188</u>
Total capital assets being depreciated	<u>5,553,157</u>	<u>-</u>	<u>(19,889)</u>	<u>5,533,268</u>
<i>Less accumulated depreciation for:</i>				
Land improvements	(215,697)	(63,429)	-	(279,126)
Buildings and improvements	(704,530)	(68,529)	-	(773,059)
Machinery and equipment	<u>(1,070,632)</u>	<u>(76,916)</u>	<u>19,839</u>	<u>(1,127,709)</u>
Total accumulated depreciation	<u>(1,990,859)</u>	<u>(208,874)</u>	<u>19,839</u>	<u>(2,179,894)</u>
Total capital assets being depreciated, net	<u>3,562,298</u>	<u>(208,874)</u>	<u>(50)</u>	<u>3,353,374</u>
Governmental activities capital assets, net	<u>\$ 3,926,635</u>	<u>\$ (208,874)</u>	<u>\$ (50)</u>	<u>\$ 3,717,711</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 53,440
Public Safety	65,654
Public Works	42,032
Recreation and Culture	<u>47,748</u>
Total Governmental Activities	<u>\$ 208,874</u>



**NOTE 4 - CAPITAL ASSETS: (Continued)**

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
<i>Capital assets not depreciated:</i>				
Land	\$ 17,000	\$ -	\$ -	\$ 17,000
Construction in progress	147,659	1,337,641	-	1,485,300
Total capital assets not being Depreciated	164,659	1,337,641	-	1,502,300
<i>Capital assets being depreciated:</i>				
Land improvements	5,000	-	-	5,000
Water system	2,657,360	-	-	2,657,360
Sewer system	1,418,482	-	-	1,418,482
Marina	1,606,839	-	-	1,606,839
Equipment	280,362	-	-	280,362
Total capital assets being depreciated	5,968,043	-	-	5,968,043
<i>Less accumulated depreciation for:</i>				
Land improvements	(500)	(250)	-	(750)
Water system	(710,814)	(62,925)	-	(773,739)
Sewer system	(596,866)	(32,326)	-	(629,192)
Marina	(977,942)	(35,476)	-	(1,013,418)
Equipment	(203,009)	(13,725)	-	(216,734)
Total accumulated depreciation	(2,489,131)	(144,702)	-	(2,633,833)
Total capital assets being depreciated, net	3,478,912	(144,702)	-	3,334,210
Business-type activities capital assets, net	\$ 3,643,571	\$ 1,192,939	\$ -	\$ 4,836,510

**NOTE 5 - LONG-TERM DEBT:**

General Long-Term Debt - The bonds payable reflected in the basic financial statements consist of general obligation notes incurred by the City of Frankfort. The City has pledged the general full faith and credit of the City for the payment of principal and interest on the bonds.

Changes in long-term debt during the twelve months ending June 30, 2008 are summarized as follows:

	Balance 07/01/07	Additions	Deductions	Balance 06/30/08	Due Within One Year
<b>Enterprise Funds:</b>					
2003 Marina Revenue Bonds maturing serially to 2013 in annual amounts ranging from \$10,000 to \$20,000 and bearing interest of 4.25%. Secured by revenues of the Marina.	\$ 125,000	\$ -	\$ 15,000	\$ 110,000	\$ 15,000

**NOTE 5 - LONG-TERM DEBT: (Continued)**

	<u>Balance 07/01/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/08</u>	<u>Due Within One Year</u>
1993 Sewage Disposal System Revenue Bonds maturing serially to 2013 in annual amounts ranging from \$5,000 to \$15,000 and bearing interest from 2.9% to 5.9%. Secured by net revenues of sewer system and, if applicable, ad valorem tax levy.	85,000	-	10,000	75,000	15,000
1998 Water Supply System Revenue Bonds maturing serially to 2019 in annual amounts ranging from \$35,000 to \$55,000 and bearing interest of 2.50%. Secured by net revenues of the water system.	625,000	-	40,000	585,000	40,000
2007 Sewage Disposal System Junior Lien Revenue Bonds maturing serially to 2047 in annual amounts ranging from \$18,000 to \$95,000 and bearing interest of 4.125%. Secured by net revenues of sewer system.	-	1,030,000	18,000	1,012,000	19,000
2007 Water Supply Junior Lien Revenue Bonds maturing serially to 2047 in annual amounts ranging from \$7,000 to \$36,000 and bearing interest of 4.125%. Secured by net revenues of the water system.	-	363,000	7,000	356,000	8,000
Total Enterprise Funds	835,000	1,393,000	90,000	2,138,000	97,000

**General Long-Term Debt:**

Decorative Street Lighting Installment Purchase Agreement payable in monthly installments at an annual interest rate of 5.0%.	3,087	-	3,087	-	-
2004 General Obligation Unlimited Tax Bonds maturing serially to 2034 in annual amounts ranging from \$19,000 to \$63,000 at an interest rate of 4.375%.	1,027,000	-	21,000	1,006,000	22,000
1998 General Obligation Unlimited Tax Water Bonds maturing serially to 2019 in annual amounts ranging from \$35,000 to \$55,000 at an interest rate of 2.50%.	625,000	-	40,000	585,000	40,000
2006 Installment Loan Purchase Agreement for a Fire Truck through West Michigan National Bank & Trust.	145,340	-	12,640	132,700	13,299

**NOTE 5 - LONG-TERM DEBT: (Continued)**

	Balance 07/01/07	Additions	Deductions	Balance 06/30/08	Due Within One Year
2005 Installment Loan Purchase Agreement for Dump Truck through State Savings Bank.	104,981	-	-	104,981	20,996
2005 General Obligation Unlimited Tax Bonds, maturing serially to 2025 in annual amounts ranging from \$5,000 to 75,000 at an interest rate of 4.650%.	565,000	-	5,000	560,000	5,000
2005 Limited Tax Capital Improvement Bonds, maturing serially to 2020 in annual amounts from \$10,000 to \$40,000 at an interest rate of 4.500%	380,000	-	20,000	360,000	20,000
Accrued sick leave and vacation	141,725	-	1,799	139,926	-
Total General Long-Term Obligations	2,992,133	-	103,526	2,888,607	121,295
<b>TOTAL LONG TERM OBLIGATIONS</b>	<b>\$ 3,827,133</b>	<b>\$ 1,393,000</b>	<b>\$ 193,526</b>	<b>\$ 5,026,607</b>	<b>\$ 218,295</b>

The annual principal and interest requirements for the years ending June 30, 2008 and after, excluding accrued compensated absences are as follows:

Year End September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 121,295	\$ 111,088	\$ 97,000	\$ 79,336
2010	126,966	106,389	103,000	75,638
2011	143,672	101,243	109,000	71,729
2012	150,400	95,567	110,000	67,673
2013	152,192	89,666	111,000	63,576
2014-2018	750,156	358,651	450,000	268,748
2019-2023	575,000	214,674	325,000	201,865
2024-2028	389,000	118,202	264,000	150,810
2029-2033	277,000	51,142	323,000	90,255
2034	63,000	2,756	246,000	20,873
Total	\$ 2,748,681	\$ 1,249,378	\$ 2,138,000	\$ 1,090,503

Interest on expense of the business-type activities is included as a direct expense of water, sewer and marina operations. Interest expense of the governmental activities is unallocated.

**NOTE 6 - COMPENSATED ABSENCES:**

Accumulated unpaid vacation, sick leave and longevity for police and other City employees are recorded in the basic financial statements. Based upon union contracts and personnel policies, as of June 30, 2008, the liability totaled \$139,926.

**NOTE 6 - COMPENSATED ABSENCES: (Continued)**

Vacation is earned in varying amounts based on an employee's years of service. Accrued vacation for salaried and nonunion employees' leave is limited to the amount earned in the prior year, except by mutual agreement between the City and the employees. Employees of the City Police Department are allowed to carry over a maximum of 40 hours of vacation from one year to the next.

Sick leave is earned at a rate of 1 day per month of service and is limited to 120 days accumulation per employee.

**NOTE 7 - PROPERTY TAXES:**

City property taxes are attached as an enforceable lien on property as of December 31 of the prior year. Real property taxes not collected as of March 1 are transferred to Benzie County for collection, which advances the City 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue in that year.

The taxable value of real and personal property located in the City at December 31, 2007 totaled \$70,121,948. The tax levy for that year was based on the following rates:

	Millage Rate Used
General Operating	13.2785
Water and Sewer Debt	.7862
City Hall	1.3877

**NOTE 8 - DEFINED BENEFIT PENSION PLAN:**

The City of Frankfort participates in a statewide government agent multiple-employer public pension plan which covers substantially all employees.

Plan Description

The City contributes to the Michigan Municipal Employees Retirement System, an agent multiple employer public employee retirement system that acts as a common investment and administrative agent for units of local government in Michigan. The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. All full-time employees become a member of the System on the first day of employment, and are completely vested after 10 years of service. Service retirement allowances are based upon percentages ranging from 1 to 2.5 percent of 3 to 5-year final average compensation depending on benefit program selected social security coverage, etc. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2007.

**NOTE 8 - DEFINED BENEFIT PENSION PLAN: (Continued)**

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining unit and personnel policy, which requires employees to contribute to the plan. The City is required to contribute at an actuarially determined rate.

The contribution rate as a percentage of payroll at December 31, 2007 is as follows:

General - Employees	10.48%
General – Police	20.50%

Annual Pension Cost

During the fiscal year ended June 30, 2008, the City's contributions totaling \$92,872 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2007. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level of percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the members retirement to pay for this projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three year trend information as of December 31 follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial Value of Assets	\$ 1,541,927	\$ 1,633,928	\$ 1,699,927
Actuarial Accrued Liability	2,188,886	2,290,783	2,430,316
Unfunded AAL	646,959	656,855	730,389
Funded Ratio	70%	71%	70%
Covered Payroll	535,803	580,667	585,505
UAAL as a Percentage of Covered Payroll	121%	113%	125%

**NOTE 8 - DEFINED BENEFIT PENSION PLAN: (Continued)**

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2006	\$ 69,892	100%	0
2007	100,034	100%	0
2008	92,872	100%	0

**NOTE 9 - COMMITMENTS AND CONTINGENCIES:**

Grant Assistance - The City received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2008.

Bonds Payable - The City has pledged its full faith and credit for payment of principal and interest of the various bond issues of the Water and Sewer Fund. The general obligation bonds payable for the Water and Sewer Fund are recorded as liabilities in the Enterprise Fund.

Property Taxes - In accordance with an agreement, Benzie County annually purchases real property taxes and delinquent special assessments (included on the tax bills) which have not been paid as of March 1 from the City. The County has recourse against the City for amounts which remain unpaid.

Litigation - The City is involved in various lawsuits now pending. It is the opinion of the City and of its counsel that the outcome of the various lawsuits will not materially affect the operations or the financial position of the City. The amount of all legal costs relating to such actions are not currently determinable.

**NOTE 10 - RISK MANAGEMENT:**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The City joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The government pays an annual premium to the pool for its automobile, property, general liability, and Worker's Compensation insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$250 for each insured event.

The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The City is unable to provide an estimate of the amounts of any potential additional assessments.

**NOTE 11 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS:**

Segment information for the year ended June 30, 2008, is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Marina</u>
Nonoperating revenue (expense)	\$ (17,091)	\$ (119,429)	\$ (2,935)
Operating income (loss)	9,196	11,547	13,238
Changes in net assets	(62,856)	(52,921)	303
Operating revenues	244,424	388,787	384,668
Operating expenses	235,228	377,240	371,430
Operating transfers – net	(54,961)	54,961	(10,000)
Depreciation	65,336	38,755	40,611
Total assets	2,509,259	2,105,054	770,395
Current liabilities	54,848	63,473	41,302
Long-term debt payable	893,000	1,053,000	95,000
Beginning net assets	1,624,267	1,041,502	633,790
Ending net assets	1,561,411	988,581	634,093
Cash provided by:			
Operating activities	95,801	78,981	53,588
Noncapital financing	(54,961)	54,961	(10,000)
Capital financing	(45,253)	(120,117)	(19,994)
Investing	5,630	3,579	2,059
Beginning cash	186,575	185,291	74,320
Ending cash	187,792	202,695	99,973

**NOTE 12 - RELATED PARTIES:**

The Betsie Lake Utility Authority was created by the City of Frankfort and the Village of Elberta to provide water and sewer services for the two municipalities. The two units bill and collect charges to the public for the private use of the system. The Authority in turn bills the two municipalities for use and debt service fees.

**NOTE 13 - POST EMPLOYMENT BENEFITS:**

The City provides post-employment health care benefits to all retired employees and/or their spouse and life insurance benefits for one retiree only. The benefits are provided in accordance with the union agreement, which includes the provision that upon a retiree and/or spouse's eligibility for Medicare, the City agrees to pay for the supplemental health insurance coverage for both.

For all employees the City agrees to pay the premium for each employee and their spouse at time of retirement. Employees may elect to have coverage provided to children at the employee's expense.

**NOTE 13 - POST EMPLOYMENT BENEFITS: (Continued)**

In order for an employee to be eligible for health care benefits at retirement, the employee must retire from active service with the City at age 60 with 10 years of service for Division 1 (general) or at age 50 with 25 years of service for Division 2 (police).

During 2008, eleven retirees and/or spouses were eligible for the post-employment health care benefits at a cost of \$92,872 and four retirees were eligible for life insurance benefits at a cost of \$191. The City's policy is to finance these benefits on a pay-as-you-go- basis.



## **Required Supplementary Information**

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**Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 972,224	\$ 968,861	\$ 968,861	\$ -
Licenses & Permits	6,000	3,245	3,245	-
State Sources	255,700	153,437	147,922	(5,515)
Local Sources	-	-	431	431
Charges for Services	43,000	39,205	39,482	277
Interest & Rentals	47,492	45,574	46,246	672
Other Revenue	1,775	38,270	81,758	43,488
<b>TOTAL REVENUES</b>	<b>1,326,191</b>	<b>1,248,592</b>	<b>1,287,945</b>	<b>39,353</b>
<b>EXPENDITURES:</b>				
Legislative:				
City Council	2,857	2,319	1,121	1,198
General Government:				
City Superintendent	122,648	131,468	131,468	-
Elections	3,015	2,445	2,445	-
City Assessor	20,231	20,294	20,294	-
City Clerk/Treasurer	134,733	140,145	139,717	428
Board of Review	360	288	288	-
City Hall	33,065	34,827	34,827	-
Other General Government	331,630	240,684	240,684	-
<b>Total General Government</b>	<b>645,682</b>	<b>570,151</b>	<b>569,723</b>	<b>428</b>
Public Safety:				
Police Department	260,059	252,860	245,409	7,451
<b>Total Public Safety</b>	<b>260,059</b>	<b>252,860</b>	<b>245,409</b>	<b>7,451</b>
Public Works:				
Highways & Streets	244,526	223,768	216,465	7,303
Sanitation	8,000	12,594	12,594	-
<b>Total Public Works</b>	<b>252,526</b>	<b>236,362</b>	<b>229,059</b>	<b>7,303</b>
Recreation & Cultural:				
Launch Ramp	30,452	28,917	26,728	2,189
Parks	84,100	183,635	185,428	(1,793)
<b>Total Recreation &amp; Cultural</b>	<b>114,552</b>	<b>212,552</b>	<b>212,156</b>	<b>396</b>
Debt Service	-	-	7,503	(7,503)
<b>TOTAL EXPENDITURES</b>	<b>1,275,676</b>	<b>1,274,244</b>	<b>1,264,971</b>	<b>9,273</b>

**Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXCESS OF REVENUES OVER EXPENDITURES	50,515	(25,652)	22,974	48,626
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	149,225	49,662	10,000	(39,662)
Operating Transfers Out	(61,276)	(64,260)	(82,818)	(18,558)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 138,464</u>	<u>\$ (40,250)</u>	(49,844)	<u>\$ (9,594)</u>
FUND BALANCE, JULY 1			<u>206,647</u>	
FUND BALANCE, JUNE 30			<u>\$ 156,803</u>	

**Required Supplementary Information  
Budgetary Comparison Schedule  
Major Streets Fund  
Year Ended June 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 170,106	\$ 95,570	\$ 98,606	\$ 3,036
Interest & Rentals	200	276	476	200
 TOTAL REVENUES	 170,306	 95,846	 99,082	 3,236
EXPENDITURES:				
Public Works	158,270	91,529	92,569	(1,040)
 TOTAL EXPENDITURES	 158,270	 91,529	 92,569	 (1,040)
 EXCESS OF REVENUES OVER EXPENDITURES	 12,036	 4,317	 6,513	 2,196
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	-	18,558	18,558
Operating Transfers Out	(11,574)	(30,272)	(28,700)	1,572
 EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	 \$ 462	 \$ (25,955)	 (3,629)	 \$ 22,326
 FUND BALANCE, JULY 1			3,629	
 FUND BALANCE, JUNE 30			\$ -	

Required Supplementary Information  
 Budgetary Comparison Schedule  
 Local Streets Fund  
 Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 45,805	\$ 38,538	\$ 39,625	\$ 1,087
Interest & Rentals	4	22	22	-
TOTAL REVENUES	45,809	38,560	39,647	1,087
EXPENDITURES:				
Public Works	113,378	71,310	71,044	266
TOTAL EXPENDITURES	113,378	71,310	71,044	266
EXCESS OF REVENUES OVER EXPENDITURES	(67,569)	(32,750)	(31,397)	1,353
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	67,500	28,700	28,700	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (69)	\$ (4,050)	(2,697)	\$ 1,353
FUND BALANCE, JULY 1			2,987	
FUND BALANCE, JUNE 30			\$ 290	

## **Other Supplementary Information**

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# City of Frankfort, Michigan

## Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Special Revenue Funds					Debt Service Funds		
	Recreation Center	Fire	First Responders	Portable Hydrant	Brownfield Redevelopment	GO Bonds Water Improvement	Main Street Bonds	Fire Hall LTGO Bonds
<b>ASSETS:</b>								
Cash & Investments - Unrestricted	\$ 6,334	\$ 631	\$ -	\$ 1,455	\$ 798	\$ -	\$ -	\$ -
Cash & Investments - Restricted	-	-	-	-	-	6,933	6,645	10
Other Assets	24	2,379	529	-	-	-	-	-
Due from Governmental Units	-	6,572	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 6,358</b>	<b>\$ 9,582</b>	<b>\$ 529</b>	<b>\$ 1,455</b>	<b>\$ 798</b>	<b>\$ 6,933</b>	<b>\$ 6,645</b>	<b>\$ 10</b>
<b>LIABILITIES:</b>								
Due to Other Funds	\$ -	\$ 7,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	765	731	217	-	-	-	-	-
Accrued Liabilities	-	119	24	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>765</b>	<b>7,850</b>	<b>241</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES:</b>								
Reserved	-	1,732	-	-	-	-	-	-
Designated for Debt Service	-	-	-	-	-	6,933	6,645	10
Undesignated	5,593	-	288	1,455	798	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>5,593</b>	<b>1,732</b>	<b>288</b>	<b>1,455</b>	<b>798</b>	<b>6,933</b>	<b>6,645</b>	<b>10</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 6,358</b>	<b>\$ 9,582</b>	<b>\$ 529</b>	<b>\$ 1,455</b>	<b>\$ 798</b>	<b>\$ 6,933</b>	<b>\$ 6,645</b>	<b>\$ 10</b>

# City of Frankfort, Michigan

## Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Debt Service Funds		Permanent Trust Funds	
	Fire Hall UTGO Bonds	City Hall Building	Tri Centennial Trust	Totals
<b>ASSETS:</b>				
Cash & Investments - Unrestricted	\$ -	\$ -	\$ -	\$ 9,218
Cash & Investments - Restricted	175	42,568	6,288	62,619
Other Assets	-	-	-	2,932
Due from Governmental Units	-	-	-	6,572
<b>TOTAL ASSETS</b>	<u>\$ 175</u>	<u>\$ 42,568</u>	<u>\$ 6,288</u>	<u>\$ 81,341</u>
<b>LIABILITIES:</b>				
Due to Other Funds	\$ -	\$ -	\$ -	\$ 7,000
Accounts Payable	-	-	-	1,713
Accrued Liabilities	-	-	-	143
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,856</u>
<b>FUND BALANCES:</b>				
Reserved	-	-	6,288	8,020
Designated for Debt Service	175	42,568	-	56,331
Undesignated	-	-	-	8,134
<b>TOTAL FUND BALANCES</b>	<u>175</u>	<u>42,568</u>	<u>6,288</u>	<u>72,485</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 175</u>	<u>\$ 42,568</u>	<u>\$ 6,288</u>	<u>\$ 81,341</u>



# City of Frankfort, Michigan

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds Year Ended June 30, 2008

	Special Revenue Funds					Debt Service Funds		
	Recreation Center	Fire	First Responders	Portable Hydrant	Brownfield Redevelopment	GO Bonds Water Improvement	Main Street Bonds	Fire Hall LTGO Bonds
<b>REVENUES:</b>								
Taxes	-	\$ -	\$ -	\$ -	\$ -	\$ 55,082	\$ -	\$ -
Federal Sources	600	-	-	-	-	-	-	-
Local Sources	560	17,100	-	1,450	-	-	-	-
Charges for Services	10,419	108,193	9,302	-	-	-	-	-
Interest & Rentals	119	346	-	5	17	507	12	-
Other Revenue	9,500	9,493	-	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>21,198</b>	<b>135,132</b>	<b>9,302</b>	<b>1,455</b>	<b>17</b>	<b>55,589</b>	<b>12</b>	<b>-</b>
<b>EXPENDITURES:</b>								
Public Safety	-	157,152	16,370	-	-	-	-	-
Recreation & Cultural	33,265	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	55,154	-	36,875
<b>TOTAL EXPENDITURES</b>	<b>33,265</b>	<b>157,152</b>	<b>16,370</b>	<b>-</b>	<b>-</b>	<b>55,154</b>	<b>-</b>	<b>36,875</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(12,067)</b>	<b>(22,020)</b>	<b>(7,068)</b>	<b>1,455</b>	<b>17</b>	<b>435</b>	<b>12</b>	<b>(36,875)</b>
<b>OTHER FINANCING SOURCES (USES):</b>								
Operating Transfers In	10,000	47,044	7,216	-	-	-	-	36,875
Operating Transfers Out	-	(36,875)	-	-	-	-	-	-
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>(2,067)</b>	<b>(11,851)</b>	<b>148</b>	<b>1,455</b>	<b>17</b>	<b>435</b>	<b>12</b>	<b>-</b>
<b>FUND BALANCES, JULY 1</b>	<b>7,660</b>	<b>13,583</b>	<b>140</b>	<b>-</b>	<b>781</b>	<b>6,498</b>	<b>6,633</b>	<b>10</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 5,593</b>	<b>\$ 1,732</b>	<b>\$ 288</b>	<b>\$ 1,455</b>	<b>\$ 798</b>	<b>\$ 6,933</b>	<b>\$ 6,645</b>	<b>\$ 10</b>

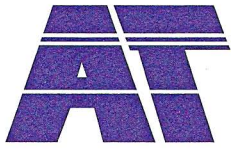
# City of Frankfort, Michigan

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds Year Ended June 30, 2008

	Debt Service Funds		Permanent Trust Funds	
	Fire Hall UTGO Bonds	City Hall Building	Tri Centennial Trust	Totals
<b>REVENUES:</b>				
Taxes	\$ -	\$ 97,226	\$ -	\$ 152,308
Federal Sources	-	-	-	600
Local Sources	-	-	-	19,110
Charges for Services	-	-	-	127,914
Interest & Rentals	-	-	245	1,251
Other Revenue	-	-	-	18,993
<b>TOTAL REVENUES</b>	<u>-</u>	<u>97,226</u>	<u>245</u>	<u>320,176</u>
<b>EXPENDITURES:</b>				
Public Safety	-	-	-	173,522
Recreation & Cultural	-	-	-	33,265
Debt Service	<u>31,564</u>	<u>65,931</u>	<u>-</u>	<u>189,524</u>
<b>TOTAL EXPENDITURES</b>	<u>31,564</u>	<u>65,931</u>	<u>-</u>	<u>396,311</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(31,564)	31,295	245	(76,135)
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In	31,564	-	-	132,699
Operating Transfers Out	<u>-</u>	<u>(31,564)</u>	<u>-</u>	<u>(68,439)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	-	(269)	245	(11,875)
<b>FUND BALANCES, JULY 1</b>	<u>175</u>	<u>42,837</u>	<u>6,043</u>	<u>84,360</u>
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 175</u>	<u>\$ 42,568</u>	<u>\$ 6,288</u>	<u>\$ 72,485</u>

## **Reports on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

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**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members  
of the City Council  
City of Frankfort, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frankfort, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City of Frankfort, Michigan's basic financial statements and have issued our report thereon, dated December 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Frankfort, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency as item 07-1.

Honorable Mayor and Members  
of the City Council

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in 07-1 in the accompanying summary schedule of prior audit findings to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Frankfort, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Frankfort, Michigan in a separate letter dated December 19, 2008.

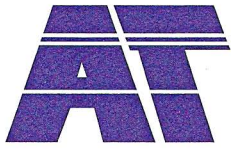
The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, City Council, Management, federal awarding agencies, pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

December 19, 2008



**ANDERSON, TACKMAN & COMPANY, PLC**  
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Members  
of the City Council  
City of Frankfort, Michigan

**Compliance**

We have audited the compliance of the City of Frankfort, Michigan with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Frankfort, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

### **Internal Control Over Compliance**

The management of the City of Frankfort, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Frankfort, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Mayor, City Council, management, federal awarding agencies, pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

December 19, 2008

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Agriculture:</b>			
Direct Award:			
Water and Waste Disposal Systems for Rural Communities	10.760	-	\$ 1,030,000
Water and Waste Disposal Systems for Rural Communities	10.760	-	<u>363,000</u>
Total U.S. Department of Agriculture			<u>1,393,000</u>
 <b>Total Expenditures of Federal Awards</b>			 <u><u>\$ 1,393,000</u></u>



**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Frankfort, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B - COGNIZANT AGENCY**

The City has not been assigned a cognizant agency. Therefore, the City is under the general oversight of the U.S. Department of Agriculture which provided the greatest amount of direct federal funding to the City during fiscal year 2008.

**NOTE C - RECONCILIATION TO BASIC FINANCIAL STATEMENTS**

The following is a reconciliation to the amounts reported on the basic financial statements to the schedule of expenditures of federal awards:

Total Federal per Financial Statements	\$ -
Add: Loan Guaranties	<u>1,393,000</u>
Total Federal Revenue Recognized per Schedule of Expenditures of Federal Awards	<u>\$ 1,393,000</u>

Section I – Summary of Auditor’s Results

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Significant deficiencies identified  
that are not considered to be  
material weaknesses? Yes

Noncompliance material to financial  
statements noted? No

**Federal Awards**

Internal control over major programs:

Material weaknesses identified? No

Significant deficiencies identified  
that are not considered to be  
material weaknesses? No

Type of auditors' report issued on  
compliance for major programs: Unqualified

Any audit findings disclosed that are  
required to be reported in accordance  
with section 510(a) of Circular A-133? No

**Identification of Major Programs**

**CFDA NUMBERS**

**Name of Federal Program or Cluster**

10.760 Water and Waste Disposal Systems for  
Rural Communities

Dollar threshold used to distinguish  
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? No

**Section II – Financial Statement Findings**

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**NONE.**

**Section III – Federal Award Findings and Questioned Costs**

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**NONE.**

Section II – Financial Statement Findings

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*Significant Deficiencies*

*Finding 07-1*

Specific Requirement: Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 112.

Criteria: Internal controls should be in place to provide reasonable assurance to the City that management reports financial statements necessary to monitor and report annual and interim financial activity without auditor intervention.

Condition: Personnel responsible for financial reporting are not monitoring and reporting interim or annual financial activity without auditor intervention.

Effect: The effect of this condition places a reliance on the independent auditor as part of the City's internal controls over financial reporting.

Cause: Change in application of auditing standard.

Recommendation: The City should review and implement the necessary education and procedural activities to monitor and report annual financial activity.

Planned Corrective Action: As a result of the limited funding, the City does not have resources to fund this process. We intend to re-evaluate once funding becomes available for the additional reporting and monitoring.

- Contact Person(s) Responsible for Correction:  
Kim Kidder, Treasurer/Clerk

Status: Unchanged.

## **Additional Information**

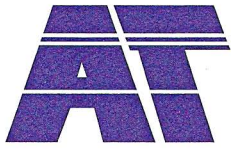
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**CITY OF FRANKFORT, MICHIGAN**

**ADDITIONAL INFORMATION**

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**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION**

Honorable Mayor and Members  
of the City Council  
City of Frankfort, Michigan

Our report on our audit of the basic financial statements of the City of Frankfort, Michigan, as of and for the year ended June 30, 2008, appears on page 1. That audit was conducted for the purpose of forming opinions on the basic financial statements. The additional information listed on the following pages regarding the Municipal securities disclosure requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 is presented for purposes of additional analysis and is not a required part of the basic financial statements, and accordingly, we express no opinion on it.

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

December 19, 2008

**NOTE 1 - DEBT ISSUES APPLICABLE TO SEC RULE 15c2-12 DISCLOSURES REQUIREMENTS:**

Debt issues of \$1,000,000 or more sold on or after July 3, 1995 are applicable to SEC rule 15c2-12 disclosure requirements. As of June 30, 2008, the City has the following debt issues which apply to SEC Rule 15c2-12. As of June 30, 1999 the City agreed to provide the following disclosures relating to the following debt issue of Betsie Lake Utility Authority which applies to SEC Rule 15c2-12.

1. \$2,025,000 Sewage Disposal System Revenue Refunding Bonds, Series 2000.

**NOTE 2 - TABLES:**

The following tables are included in the debt issues and are required to be updated annually to comply with the Municipal Securities disclosure requirements of the SEC Rule 15c2-12.

**A. Number of Sewer Customers by Water Classification:**

Fiscal Year Ended June 30	Residential	Commercial	Industrial	Governmental	Other	Total Number of Meters	Percent Change
2001	725	109	8	14	74	930	14.00
2002	751	114	7	10	22	904	3.00
2003	751	111	9	12	22	905	0.11
2004	728	140	12	12	23	915	1.00
2005	732	141	12	14	23	922	0.76
2006	787	108	9	12	20	936	1.52
2007	786	108	9	12	20	935	0.11
2008	806	120	7	12	23	968	3.53

Source: City of Frankfort

**B. Residential Sewage Disposal Service Rates:**

Fiscal Year Ended or Ending June 30	Monthly Ready-to-Serve Charge (1)	Charge Per 1,000 Gallons
2001	18.00	3.00
2002	18.00	3.00
2003	18.00	3.00
2004	18.00	3.00
2005	18.00	3.00
2006	18.00	3.00
2007	18.00	3.00
2008	18.00	3.00

(1) Commercial and industrial ready-to-serve charges are based on residential ready-to-serve charges multiplied by a monthly Residential Equivalent Unit ("REA") factor.

Source: City of Frankfort



NOTE 2 - TABLES: (Continued)

C. Daily Industrial Surcharges for Sewage Disposal Service:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Wastewater with BOD > 300 mg/l	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Wastewater with suspend solids > 300 mg/l	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Wastewater with COD > 450 mg/l	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Wastewater with phosphorous > 15 mg/l	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00

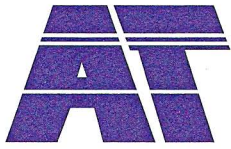
Source: City of Frankfort

D. Water Consumption as Billed by Meter Classification (1):

<u>Fiscal Year Ended June 30</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Municipalities</u>	<u>Other</u>	<u>Total</u>	<u>Percent Change</u>
2002	40,489,052	19,648,287	3,451,600	1,277,320	2,443,530	67,309,789	11.00
2003	38,091,207	17,870,633	2,707,556	2,901,570	1,353,425	62,924,391	(6.50)
2004	35,741,251	18,145,503	1,588,833	832,080	1,367,215	57,674,882	(8.34)
2005	41,105,917	14,425,720	1,642,910	1,607,143	1,305,199	60,086,889	4.18
2006	41,719,068	14,932,207	1,628,589	2,227,316	2,167,526	62,675,006	4.30
2007	34,438,384	14,709,045	1,286,170	2,165,043	2,329,632	54,928,274	(12.36)
2008	36,580,652	15,332,760	1,712,080	2,805,010	2,726,667	59,157,169	7.70

(1) In gallons.

Source: City of Frankfort



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**MICHIGAN & WISCONSIN**

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

To the Honorable Mayor  
and City Commission  
City of Frankfort, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frankfort, Michigan for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter dated August 22, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City of Frankfort, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of Frankfort, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of Frankfort, Michigan's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Frankfort, Michigan's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Frankfort, Michigan's compliance with those requirements.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 22, 2008.

### **Significant Accounting Policies**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Frankfort, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the depreciation expense based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determine that it is reasonable in relation to the financial statements taken as a whole.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### ***Disagreement with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated December 19, 2008.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### ***Comments and Recommendations***

#### **Enterprise Fixed Assets (Prior Year)**

Fixed asset purchases for the enterprise funds were recorded as capital outlay expenses during fiscal 2001, 2002, 2003, 2005, 2006, and 2007. Fixed asset purchases for the enterprise funds should be recorded in the applicable fixed asset account in the general ledger to comply with U.S. generally accepted accounting principles.

### **General Fixed Assets (Prior Year)**

A fixed asset listing at the time of audit had not been completed, though staff had accumulated new-tagged assets and support documentation. The fixed asset listing should be updated to reflect these assets as well as deletions found during the audit.

### **General Ledger (Prior Year)**

Accounts receivables and payables needed to be reconciled at year end. We recommend that management reconcile all accounts to supporting information periodically.

### **Clearing Funds (Prior Year)**

The City has two clearing funds, accounts payable, and payroll. The funds by their definition should only act as means of paying bills and payroll. The funds should not maintain any surplus or deficit cash. At year end, the accounts payable fund has surplus cash and the payroll fund has deficit cash. We recommend that this issue be further researched to ensure that the funds are operating as intended.

### **Personal Property Taxes (Prior Year)**

Currently, the City is not recording the amount of outstanding delinquent personal property taxes that are due to the City in the general ledger. It is recommended the City record the amount of outstanding delinquent personal property taxes in the general ledger of each fund that has a tax levy. The City should maintain subsidiary ledgers which show the amount of delinquent personal property taxes owed by each tax payer by individual tax year.

### **Cash (Prior Year)**

At year end, common cash per the bank was not completely reconciled to the common cash per the general ledger. We recommend that the bank balance be reconciled to the general ledger.

### **GASB Statement 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits other than Pensions**

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is being implemented in three phases, with the City of Frankfort, Michigan being required to implement the Statement for the year ended June 30, 2010. GASB Statement 45 is going to impact the future accounting of post-employment health insurance costs as it relates to the amount the City will be required to pay for these benefits. Beginning in 2009, the City will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The City Commission should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

**Conclusion**

This information is intended solely for the use of the Mayor, City Commission, and management of the City of Frankfort and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC". The signature is written in a cursive, flowing style.

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

December 19, 2008